Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

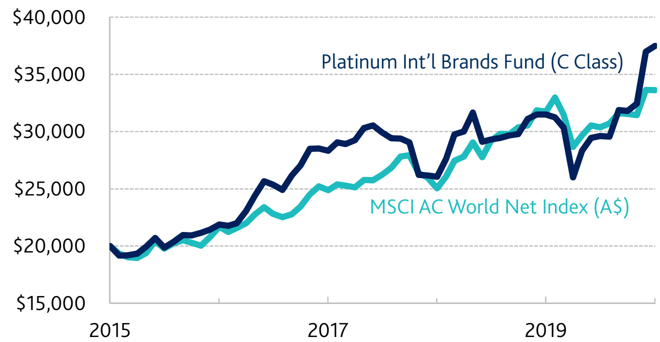
(compound p.a.+, to 31 December 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	18%	19%	10%	13%	13%
MSCI AC World Index^	7%	6%	11%	11%	4%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 6. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 December 2015 to 31 December 2020



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 6.

Risk assets rallied strongly during the quarter on the back of the release of positive data from the BioNTech/Pfizer and Moderna vaccine trials, the approval of these vaccines by the US Food and Drug Administration (FDA), as well as a resolution to election uncertainty in the US. In that context, the Fund (C Class) produced a strong quarterly return of 17.9%, with November producing the best monthly return in the Fund's history (14.0%). Our active currency positioning with low exposure to the US dollar, helped mitigate the impact of the strong Australian dollar over the quarter.[1]

This capped a tumultuous year, with events that have affected all of us directly. Perhaps the biggest surprise of 2020 is that despite a global pandemic, ravaging bushfires and increasing geopolitical quarrels, investors who withstood the extreme volatility received a surprisingly pleasant 6% return from international markets. Investors in the Fund gained 19% for the calendar year.

With the availability of a vaccine now a current fact rather than a future possibility, investors became willing to ascribe much greater value to the businesses hardest hit by the pandemic. This drove a large re-rating of our substantial holdings in consumer discretionary stocks. Likewise, a perceived reduction in the risk of business bankruptcies and positive implied flow-on impacts to employment, led investors to improve their views of likely loan losses for our bank holdings, which triggered strong gains.

Our ownership of such stocks is not the result of some perverse desire to invest in volatile businesses exposed to economic fluctuations, but rather a reflection of the consistent application of our investment process. Regular readers of this quarterly report may recall periods when the Fund has had significantly different positioning, with substantially smaller exposure to discretionary stocks, financials and the US market, and much larger exposure to digital-related businesses and China. Our current positioning, as always, is a function of where we believe the best opportunities lie to generate excess returns on a risk-adjusted basis.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International Brands Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

The substantial downward repricing of any stock heavily exposed to pandemic-related impacts, created a unique opportunity to acquire positions at valuations that implied substantial cash losses in the medium term and/or much reduced profits over an extended period. We took advantage of this buying opportunity, and the Fund's returns since the beginning of the market rebound at the end of March are a direct reflection of that.

Bank of Ireland led the contributions to Fund returns this quarter as its stock price doubled from very depressed levels. Fellow European banks **Banco Santander** (+57% from the first entry point during the quarter), **Sberbank Russia** (+24%), **TCS Group** (+24%) and **Raiffeisen Bank International** (+28%) also delivered strong share price appreciation as investor fears around severe pandemic-driven loan losses subsided. Please see the Platinum European Fund quarterly report for a more detailed discussion of the rationale behind our European bank investments.

Leading independent Chinese wealth manager **Noah Holdings** rose 84% following investors digesting solid quarterly results, as well as a positive initiation report on this poorly covered stock from a bulge-bracket investment bank. This move is a useful illustration of how a shift in sentiment can drive rapid gains from depressed levels, well beyond the period-on-period changes in the reported financials. The stock remains very attractive in our view at its current valuation of 19x consensus earnings for 2020, with around US$850 million in cash on balance sheet against a market capitalisation of US$2.8 billion. Seemingly a small price to pay for the leader in what can be a truly gigantic market.

Hong Kong-listed Chinese state-owned auto manufacturer **Dongfeng Motor Group** (+88%) provided a similar example of outsized returns arising from a change in sentiment spurred by an unexpected event. The gains were triggered by an announcement that it would pursue an initial public offering (IPO) in the mainland A-share market. Prior to the announcement, Dongfeng was trading on around 4x current depressed earnings, as well as at a sizeable discount to the value of its cash and investments. The stock also paid a dividend yield approaching 7%. It was far too cheap, even for a challenged sector, and we believed it needed very little positive news to cause it to appreciate significantly.

Leading the contributions from our discretionary retail holdings were mid-tier department store **Kohl's** (+120%), women's apparel retailer **Aritzia** (+48%), jewellers **Pandora** (+49%) and **Signet** (+46%), and teen apparel retailer **American Eagle Outfitters** (+36%). Each stock has its own specific investment case, but the common threads this quarter were the vaccine news as well as better-than-feared reported financials, as inventories were managed tightly to support margins, and e-commerce operations offset reduced store traffic.

Rounding out the top contributors to the Fund's quarterly performance were our regional theme park operators **Six Flags** (+68%), **SeaWorld Entertainment** (+60%) and **Cedar Fair** (+40%). While many of their parks had already reopened (at reduced capacity) on the basis of strict social distancing and hygiene policies, the positive vaccine news no doubt led to investor visions of roller-coasters re-filled with screaming tweens.

Alibaba (-21%) and **China Mobile** (-11%) were the primary detractors from performance. Alibaba suffered as a result of an increased threat of regulatory action around its financial business Ant and in relation to alleged abuse of its market power, while China Mobile was hit by US sanctions in relation to its alleged support of the Chinese military that require the divestment of the stock by all US persons. In a classic demonstration of the unintended consequences of regulatory intervention, the latter measures amount to a forced transfer of value from US investors to Chinese investors, given the stock's highly attractive valuation. While its US$58 billion of net cash on balance sheet ensures it will not be hampered by its reduced access to capital markets.

Disposition of Assets

REGION	31 DEC 2020	30 SEP 2020	31 DEC 2019
North America	36%	42%	27%
Europe	33%	24%	22%
Asia	22%	21%	36%
Japan	4%	5%	8%
Cash	5%	8%	7%
Shorts	-4%	-7%	-19%

See note 3, page 6. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2020	30 SEP 2020	31 DEC 2019
Consumer Discretionary	47%	48%	41%
Financials	18%	12%	10%
Communication Services	17%	18%	21%
Consumer Staples	3%	0%	-2%
Industrials	3%	3%	4%
Real Estate	1%	1%	1%
Other	2%	2%	0%
TOTAL NET EXPOSURE	91%	85%	74%

See note 4, page 6. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

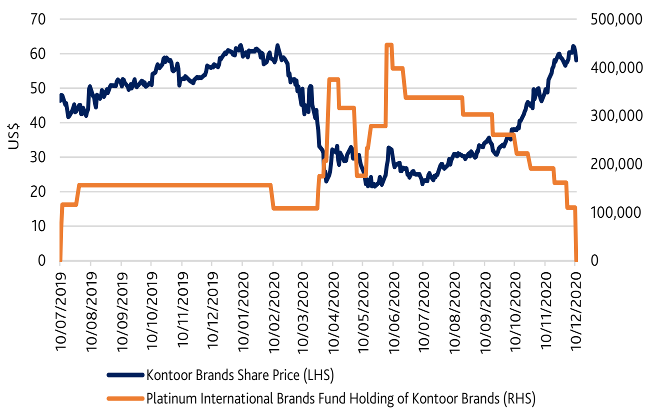
Changes to the Portfolio

During the quarter we exited several positions, including footwear retailer **Foot Locker** (+12% in the quarter to exit) and the manufacturer of Wrangler and Lee denim, **Kontoor Brands** (+81% in the quarter to exit).

Foot Locker failed to meet our expectations, essentially due to our underestimation of the extent of the investment the business required to maintain customer traffic in the face of industry headwinds. Our opportunistic purchases in March and May 2020 mitigated our overall losses from the position.

While our final sale price for Kontoor represented only a moderate 30% gain from our July 2019 entry price, our trading activity took advantage of volatility to deliver significantly greater value to the Fund's investors. Fig. 1 shows the changes in the Fund's holding of Kontoor stock relative to the share price. This is a near-perfect example of how we seek to approach trading in a stock that suffers a sell-off divorced from its long-term fundamentals; adding to the position as the stock falls, and trimming to manage the position size and reallocate capital to other, now more attractive, opportunities as it rallies.

Fig. 1: Kontoor Brands – Stock Holding vs. Share Price



Source: FactSet Research Systems and Platinum Investment Management Limited. Historical performance is not a reliable indicator of future performance.

While we may not necessarily execute this successfully with every position, this is the general pattern we follow when given the opportunity.

This approach also led us to trim sizeable amounts of many of our previous winners during the quarter, including **Canada Goose**, **Vail Resorts** (please see the brief article *"Finding Gems in the Travel Space"* by Nicholas Markiewicz on the following page), **Kohl's**, **Six Flags** and **Dongfeng Motor**, in order to manage our overall net exposure and to reallocate capital to relatively more attractive opportunities.

Outlook

While the news is still filled with talk of COVID-19 case counts and lockdowns, markets are looking forward to the post-pandemic world, buoyed by unprecedented monetary and fiscal stimulus. With valuations of many high-flying stocks in hot sectors well into bubble territory, we take comfort that many of our holdings remain below their pre-pandemic levels, while others have emerged from the pandemic in stronger competitive positions. Despite impressive appreciation from the lows, the overall portfolio remains a compelling value proposition.

Rampant investor demand for new stock issuance is fuelling the creation of supply by investment banks, with the rabbit-like proliferation of special purpose acquisition companies (SPACs) a clear symptom of this exuberance. Ultimately, we believe the music will stop, as it always does, and the high-flyers will come crashing back to Earth (or at least see their valuations descend to cruising altitude). We believe the Fund's primary exposures to reasonably valued digital leaders, coupled with out-of-favour areas of the market should serve us well in such a scenario.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Facebook Inc	US	Comm Services	4.4%
Alphabet Inc	US	Comm Services	4.4%
Tencent Holdings	China	Comm Services	4.3%
Alibaba Group Holding	China	Cons Discretionary	4.1%
TCS Group Holding	Russia	Financials	3.7%
ASOS PLC	UK	Cons Discretionary	3.4%
Sberbank	Russia	Financials	3.3%
Planet Fitness Inc	US	Cons Discretionary	3.0%
Lixil Group	Japan	Industrials	3.0%
Noah Holdings Ltd	China	Financials	3.0%

As at 31 December 2020. See note 5, page 6.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

Finding Gems in the Travel Space

By Nicholas Markiewicz

As we welcome the start of 2021, the global travel and leisure industry is still in the early stages of a recovery, having endured its worst-ever crisis as a result of COVID-19.

When the frightening health effects and transmissibility of the disease became better understood in early 2020, governments around the world sought to curb its spread through severe restrictions on human movement, achieved via stay-at-home orders and mass border closures. A predictable and intended effect of these measures was a collapse in travel demand. In the space of just three months, at its nadir in April 2020, global airline passenger demand fell an unprecedented 94% year-on-year (see Fig. 1)[1] and hotel revenue per available room fell 80%[2]. To put the former into context, during SARS (severe acute respiratory syndrome), which was the largest previous pandemic shock, global air traffic fell 20%[3] for two months, before bouncing sharply back to pre-pandemic levels.

The travel and leisure industry's generally thin margins, high capital intensity, high fixed costs and negative working capital (on account of bookings being taken months in advance) meant the sector haemorrhaged cash immediately, triggering a full-blown crisis. The concurrent contractions in gross domestic product (GDP) and employment in every major economy, coupled with questions around the timeline of an effective COVID-19 treatment, compounded the pain, and meant the timing and shape of a recovery was far from certain, with past travel shocks providing little precedent.

The stock market's response was severe. Proxies for the listed travel and leisure sector fell 45% from February 2020 levels to March 2020 lows,[4] with some of the more indebted companies (airlines, casinos, cruise lines) falling even harder, and a small number collapsing quickly into bankruptcy. The broad and indiscriminate sell-off, however, also provided a rare opportunity to acquire businesses with unique assets and quality franchises that had a high likelihood of weathering the COVID-19 storm, restoring their pre-COVID earnings base, and ultimately, resuming their longer-dated growth. Across its portfolios, Platinum used the COVID-induced market volatility to start positions, and add to existing holdings like Ryanair, Booking Holdings, Wyndham Hotels, Trip.com, Amadeus and MTU Aero Engines. Platinum also acquired a position in Vail Resorts for the first time in its history.

Vail Resorts is the world's largest ski resort group. It owns and operates 37 mountains and has 18 million annual skier visit days, giving it roughly a quarter of the North American ski market. Vail has a broad portfolio of non-replicable assets, with four of the top five most visited resorts in North America (Vail, Whistler, Breckenridge, Park City) and another 32 smaller, regional resorts spread strategically across the US (Mid-West, North East), Canada and Australia.

Vail's management team is credited with upending the ski industry's economics. Skiing used to be a volatile and low-margin industry, a result of high fixed operating costs, seasonal demand and unpredictable snowfall. Around 10 years ago, Vail shifted its strategy from squeezing a small number of resorts for cash, to acquiring a portfolio of dozens of resorts and making these all collectively accessible through a single, cut-price season pass – an industry first. In exchange for an early commitment (season passes are sold in the off-season), consumers suddenly had unparalleled choice and value, which increased through the years as Vail added more resorts, including Australia (Perisher, Hotham, Falls Creek), as well as partnerships in Japan and Europe. Once borders open, for only ~US$900 and with mild restrictions, Australians now have practically unlimited skiing across four continents each year.

The power of the season pass product was that it concurrently benefited consumers, the company and shareholders. As the value and choice of Vail's season pass increased (via acquisitions and new products), the company sold more season pass products, which helped lock in revenues ahead of the snowfall, and allowed Vail to take market share from competitors with inferior offerings. This process was accelerated by significant increases in last minute window prices for lift tickets, which then increased the value of the season pass. Vail has now grown to become the largest and most profitable ski resort group in the world, generating comparable margins and returns to those of European luxury goods companies.[5]

1 International Civil Aviation Organisation (ICAO), International Air Transport Association (IATA), Official Airline Guide (OAG) https://unitingaviation.com/news/economic-development/the-air-transport-monthly-monitor-for-june-2020/

2 InterContinental Hotels Group (IHG)

3 IATA, Cowen

4 STOXX® Global 3000 Travel & Leisure Index. Source: FactSet Research Systems.

5 Source: Company data, FactSet Research Systems.

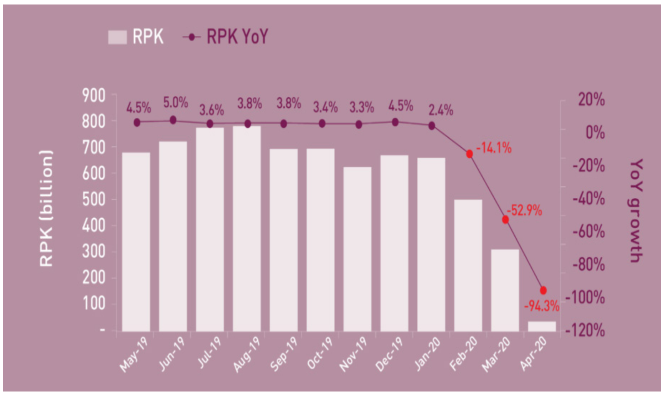
Vail's strategy has been so successful, that the remaining large resort groups in North America have had to form a collective to offer their own multi-mountain season pass, called the Ikon pass. This has transformed the North American ski market into a duopoly in three short years. The re-invigorated competition has proved to be a mixed bag for Vail. One positive is that since its launch, the Ikon pass has increased in price each year, with the cost of its season pass now exceeding Vail's, highlighting the rationality of competition. However, Vail's pool of acquisition targets is diminished by the many resorts that have joined Ikon. Longer term, we think Vail is likely to remain competitively advantaged vs. Ikon reflecting its wholly owned resort model (vs. Ikon's affiliation model), which allows it to be fast and innovative in launching products, as well as more flexible in how it allocates marketing dollars, manages customer experience, and invests in capital equipment and technology across its network. This should translate into further market share gains.

The long-term outlook for skiing is the brightest it has been in years. Better value season pass products and accommodation (e.g. Airbnb) are lowering the cost of skiing, making the sport more accessible to the young families needed to replace ageing baby boomers. Chinese skiers could also fuel another leg of growth if interest picks up following the 2022 Winter Olympics in Beijing. Having spent years in the doldrums, skiing could be on the cusp of another golden era.

Looking immediately ahead, as the first vaccines begin to be shipped more widely through 2021 and the prospect of normality returns, there are reasons to be optimistic in regards to the travel industry's prospects of recovery. InterContinental Hotel Group, for example, has reported a recovery in revenue per available room across all its regions (see Fig. 2), with Greater China now trending back to pre-COVID levels. This is consistent with the industry's long-term ability to grow through prior wars, pandemics and recessions (see Fig. 3).

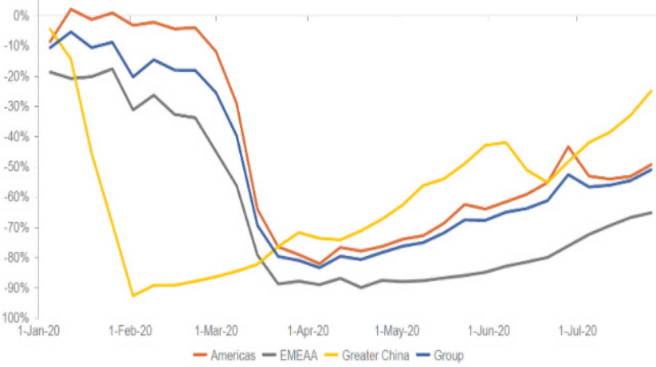
In the years to come, as we reflect on COVID-19, it may also be viewed as a blessing in disguise for surviving players. Significant capacity has likely exited the industry through bankruptcies, cancelled ship/aircraft orders and delayed hotel construction. This could see pricing power return, helping margins and returns.

Fig. 1: Revenue Passenger-Kilometres (RPK)



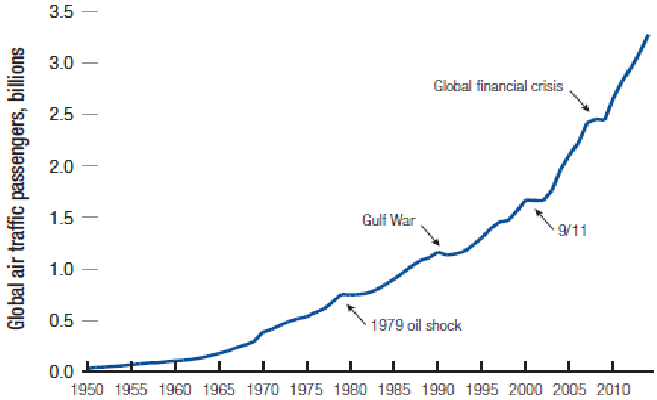
Source: ICAO, IATA, OAG

Fig. 2: InterContinental Hotel Group 2020 Weekly Revenue Per Available Room (RevPAR) By Region



Source: InterContinental Hotel Group (IHG)

Fig. 3: Global Air Passenger Traffic Trend, 1950-2014
(IATA Forecast for 2014)



Source: IATA

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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